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DATE: March 28, 2003

TO: Representative Russell Pearce, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Steve Schimpp, Assistant Director

SUBJECT: JLBC STAFF – REVIEW OF CLASSROOM SITE FUND CALCULATION

**Request**

A.R.S. § 15-977 (B1) requires the JLBC Staff to determine a per pupil amount from the Proposition 301 Classroom Site Fund (CSF) by March 30 of each year.

**Recommendation**

The JLBC Staff recommends that the Committee give a favorable review to the proposed \$230 per pupil allocation from the Classroom Site Fund in FY 2004.

**Analysis**

Statutory Formula

A.R.S. § 15-977(B1) specifies that the estimated per pupil funding amount from the CSF for a given budget year is to be based on 1) the estimated "Group A Weighted" pupil count for the current year (FY 2003) and 2) estimated available resources in the CSF for the budget year (FY 2004). We currently estimate that the "Group A Weighted" student count for the current year will be 1,109,400 pupils and that the CSF will have about \$255 million in available funding for FY 2004 (see attached table). It is from these 2 figures that we derive the \$230 per pupil CSF estimate for FY 2004 (\$255 million / 1,109,400 = \$230 per "Group A weighted" pupil).

Estimated "Group A Weighted" Student Count

Our "Group A Weighted" (GAW) student count estimate of 1,109,400 pupils for FY 2004 includes pupils at the Arizona State Schools for the Deaf and the Blind (ASDB) and the Arizona Department of Juvenile Corrections (ADJC). It assumes that the GAW student count of 1,044,641 from the 2000-2001 school

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year (which served as the basis for CSF allocations in FY 2002) grew by 2.9% during the 2001-2002 school year (an official GAW count for 2001-2002 is not yet available, but non-weighted Average Daily Membership grew by 2.9% last year). It also assumes that the statewide GAW count will grow by an additional 3.2% during the 2002-2003 school year, which is the same growth rate that we currently assume for Basic State Aid. These growth assumptions would result in a total GAW student count of 1,109,400 for FY 2003, which serves as the basis for computing per pupil allocations from the CSF for FY 2004 pursuant to A.R.S. § 15-977(B2).

#### Estimated CSF Revenues

The attached table shows that we currently estimate that the Proposition 301 sales tax will generate about \$449 million in FY 2004. This assumes that those revenues will grow by 1.5% in FY 2003 and by an additional 0.7% in FY 2004, which would match the current growth assumptions for sales tax revenues in the JLBC budget recommendation. Of the estimated \$449 million total, we estimate that about \$237 million would be allocated to the CSF. The CSF receives all 0.6 cent sales tax revenues that remain unallocated after all other statutory distributions are made, such as to the School Facilities Board for revenue bond debt service funding.

For FY 2004, we estimate that the CSF also will receive about \$17 million in carry-forward monies from FY 2003 plus \$873,800 in interest earnings, which would result in a total CSF revenues of about \$255 million. We anticipate that the CSF will carry \$16,547,500 into FY 2004 because of lower than expected School Facilities Board debt service costs, higher than expected Land Trust earnings, and other miscellaneous factors during FY 2003. Our \$873,800 estimate for interest earnings is based on reported CSF interest earnings from FY 2002. The Arizona Department of Education is not permitted to allocate out the anticipated \$16,547,500 “ending balance” monies during FY 2003 because this would provide more than the \$239.47 per pupil amount that is authorized for the year pursuant to A.R.S. § 15-977(B2).

As shown in the attached table, CSF funding would decrease by about \$10 per pupil (from \$240 in FY 2003 to \$230 in FY 2004) under our estimates. Two major contributing factors in this regard are 1) a \$17,197,600 increase in costs for additional school days (1 more day in FY 2004), and 2) an estimated \$21,130,500 decrease in State Trust Land revenues to the CSF. The \$17,197,600 additional school day increase will occur in FY 2004 because Proposition 301 allocates \$48,727,700 of 0.6 cent sales tax monies in FY 2004 for additional school days. This is an increase of \$17,197,600 above the FY 2003 total of \$31,530,100, which was for 2 additional days in FY 2003 versus 3 in FY 2004. The \$17,197,600 increase will reduce the amount of Proposition 301 sales tax monies available to the CSF in FY 2004, since the CSF is “last in line” for Proposition 301 monies.

The estimated \$21,130,500 decrease in State Trust Land revenues to the CSF is due to first-time implementation of a new formula for computing the “expendable” portion of trust land earnings under Proposition 102 from November 1998. Because of the new formula, we estimate that “expendable” land trust earnings will drop from an estimated \$93,393,500 in FY 2003 to \$61,761,100 in FY 2004. As a result, expendable land trust revenues will not even reach the \$72,263,000 “baseline” level above which all land trust earnings are allocated to the CSF pursuant to A.R.S. § 37-521(B4). State Land Trust earnings that are available for transfer to the CSF therefore will drop from an estimated \$21,130,500 (\$93,393,500 total minus \$72,263,000 “baseline” = \$21,130,500) in FY 2003 to zero in FY 2004.

#### Revised Estimates

Our March 30 estimates for each upcoming year cannot exactly predict the amount of per pupil funding that will be available that year because of uncertainties in estimating sales tax revenues and GAW pupil counts. If we underestimate revenues or overestimate the GAW student count, more funding will end up being available per pupil from the CSF than we anticipate, and vice versa.

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If our March 30 per pupil estimate is too *high*, school districts will not receive as much funding from the CSF as anticipated. Under this circumstance, current law (A.R.S. § 15-977H) allows a school district, if necessary, to borrow money temporarily from the county treasurer by issuing “warrants” in order to make up the difference. The district then is required to pay back the warrant money with interest out of its CSF funding from the subsequent fiscal year.

If our March 30 per pupil estimate ends up being too *low*, the state level CSF will end up having a surplus for the year and will carry monies forward into the next fiscal year. Those carry-forward monies will then be factored into our March 30 estimate for the following year. Our \$230 per pupil estimate for FY 2004, for example, assumes that about \$17 million will be carried forward from FY 2003 and will be available for allocation in FY 2004.

RS/SSC:jb  
Attachment